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29 April 2016

QUARTERLY ACTIVITIES REPORT

To 31st March 2016

Blue Energy Limited (ASX: "BUL") is pleased to report on progress in March 2016 quarter activities across the proven and emerging basins in Queensland and the Northern Territory in which the Company's key gas and oil projects are located.

Key Points

- **Blue Energy continuing discussions with gas buyers**
- **ACCC sees East Coast gas supply uncertainty**
- **Gas demand in Gladstone now twice southern states combined**
- **Arrow's Moranbah-Gladstone pipeline still in play**
- **Current cash position $4.8 million**

Blue Energy Reserve Growth

Despite both domestic and LNG export markets being in tight supply, Blue Energy has built a solid 2P & 3P reserves base, and has a large Contingent Resource Base from which to further grow reserves

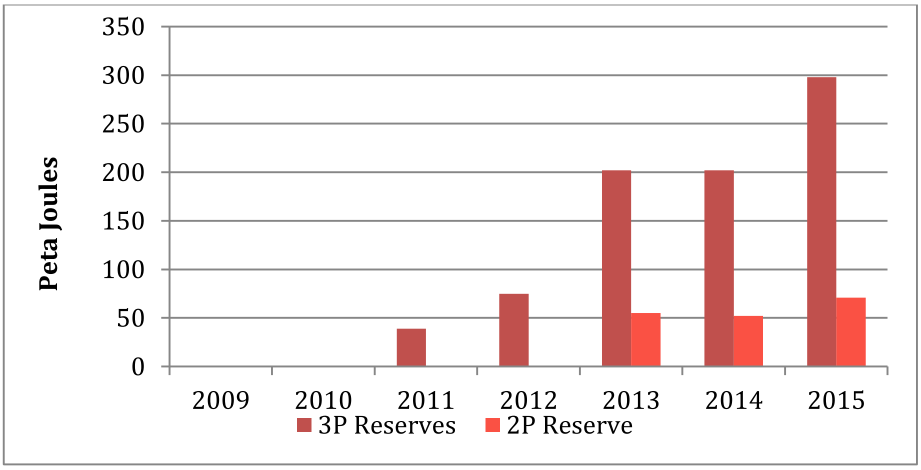

Table 1: Blue Energy Reserves Growth chart

Permit	Block	Assessment Date	Announcement Date	Methodology	Certifier	1P (PJ)	1C (PJ)	2P (PJ)	2C (PJ)	3P (PJ)	3C (PJ)
ATP854P		30/06/2012	19/03/2013	SPE/PRMS	NSAI	0	22	0	47	0	101
ATP813P		29/10/2014	30/10/2014	SPE/PRMS	NSAI	0	0	0	61	0	830
ATP814P	Sapphire	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	66	59	108	216	186
ATP814P	Central	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	50	12	99	75	306
ATP814P	Monslatt	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	0	0	619	0	2,054
ATP814P	Lancewood	5/12/2015	8/12/2015	SPE/PRMS	NSAI	0	5	0	23	1	435
ATP814P	South	30/06/2013	29/07/2013	SPE/PRMS	NSAI	0	15	0	27	6	30
Total (PJ)						**0**	**158**	**71**	**984**	**298**	**3,942**
Total MMBOE						**0**	**27**	**12**	**168**	**51**	**672**

Table 2: Blue Energy Reserve and Resource Position (net to Blue)

Global Commodity prices

Global oil prices have staged a modest recovery over the last quarter, but with little change in the fundamental supply and demand equation (global supply is only about 1.5 million barrels per day over demand – out of a total supply volume of approximately 94 million barrels per day) The markets however are looking for anything that gives a pointer to a reduction in production volumes, whether it be the Doha meeting of OPEC producers to agree on a production freeze (at record production levels), a labour strike in the Kuwait oil fields reducing production levels, or lower inventories in the US. Meanwhile the number of North American oil production companies filing for bankruptcy continues to climb. Since January 2015 about 60 North American oil and gas companies have filed for bankruptcy, totalling some $19 billion in aggregate debt. Clearly therefore, should oil prices rebound to near economic production thresholds, it is unlikely that banks will be rushing to lend more money to production companies, given the carnage that has been wrought on lenders with the recent collapse in the oil price. A sudden rebound in production in the US, based on a positive price signal may therefore not be immediate. In addition, predicted annual growth in global oil demand of around 1.2 million barrels per day could see the supply-demand imbalance decline sooner than expected as US production levels are anticipated to reduce sharply over the coming 12 months, after already reducing by 650,000 barrels per day from the peak production level reached in June 2015.

Globally the Industry's annual CAPEX spend on a "business as usual" basis has been in the order of around $1 trillion. However, the free fall in the oil price has seen this reduced by a massive 60% to around $400 million, thus suggesting that there will be a significant break in the conveyor belt of development opportunities in the next several years.

It is also abundantly clear that Saudi Arabia is still acting to protect its market share not only from higher cost US producers, but also from a resurgent Iran which threatens Saudi's OPEC production quota, and with whom they are essentially at war with (via Iran's proxy) in Yemen. All of this now needs to be viewed with the strategic backdrop that Deputy Crown Prince bin Salman of Saudi Arabia would like to see the Kingdom's economy free of its oil dependence by 2020 and as such is looking to float 5% of Saudi Aramco.

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East Coast Gas

The remaining two trains under construction in Gladstone (GLNG Train 2 and APLNG Train 2) both now have gas introduced into the respective liquefaction plants and are expected to begin shipping cargoes between July and December of this year. Once fully functional, this will bring the total gas demand in Gladstone to approximately 4,000 TJ/day representing approximately four times the daily gas demand of Adelaide, Sydney and Victoria combined. The level of gas demand currently observed in Gladstone is now fundamentally changing the east coast gas market dynamics (as observed by the ACCC – see paragraph below). The AEMO gas market bulletin board (http://www.gasbb.com.au/) gives daily information of gas flow in the major east coast gas infrastructure and shows how the direction of flow of the Moomba to Sydney Gas Pipeline is now INTO Moomba rather than Sydney, indicating therefore that gas for Gladstone is now being sourced from as far afield as the Otway Basin or Bass Strait. Similarly the net gas flow direction of the Moomba – Adelaide pipeline is also frequently INTO Moomba as well. Sydney's gas demand is now largely sourced from Victoria.

The fact that within 12 months of the commencement of LNG exports from Gladstone feed gas for the LNG trains is coming from Victoria shows how disruptive LNG in Gladstone has been to the east coast market, and does indicate that with at least another 20 years of contract obligations from Gladstone, the impact of timely sourcing of LNG feed gas needs to be fully understood in terms of developing new long term gas supply sources for domestic markets.

ACCC Inquiry report

The long awaited report by the ACCC on its East Coast Gas Market Inquiry was made public last week (22nd April 2016) and its main points indicated the "Triple Whammy" to the east coast gas market of 1) the new LNG plants in Gladstone 2) global energy prices and 3) over regulation of the onshore oil and gas sector.

From an explorer's perspective, the findings highlighted the uncertainty of future gas supply for the east coast market, the requirement for extensive development of currently un-developed reserves and the depletion of existing conventional gas reserves in southern states used to meet the current demand, and the increasing development cost of those reserves. Superimposed upon this is the regulatory burden and various moratoria applied to exploration (via fracture stimulation bans) in Victoria, NSW and Tasmania, such that new gas discoveries may well only be made in South Australia, Northern Territory and Queensland, but even in these jurisdictions, the regulatory burden is becoming significant. These burdens continue to lengthen the exploration and development process, add to the cost of exploration and production, which ultimately translates to delays in bringing new gas to market and higher gas prices to consumers.

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"While market conditions have been difficult, it is important that new supply comes online and that new opportunities are developed. Trading markets are developing and the Australian Energy Market Commission and the Australian Energy Market Operator are working towards further improvements in market design. More supply, new suppliers and an increased diversity of supply sources are crucial for the future competitiveness of, and pricing in, the gas market," ACCC Chairman Mr Rod Sims said.

The Report also finds that a gas reservation policy on the east coast would be counter-productive noting in its recommendation that "Gas reservation policies should not be introduced, given their likely detrimental effect on already uncertain supply."

Gas Supply ramifications

With the east coast future gas supply categorized as "uncertain" by the ACCC, and almost 90% of East Coast 2P reserves controlled by LNG Export Operators (each having 20+ year export contracts to honor), it is ironic that States with arguably the biggest need to secure domestic gas supply both for industrial, household and back up energy supply for burgeoning renewable energy capacity, are those States that seem opposed to facilitating discovery and development of their own indigenous onshore gas resources (with moratoria on gas exploration and development). Blue is well positioned in this respect, having already discovered nearly 4,000 PJ of gas resource in its existing permits, and with a significant proportion of that resource in a 3P + 2C category

With gas now being drawn toward the huge Gladstone demand centre in Qld, the supply of gas to those southern domestic markets may come at a high price in the absence of additional new gas supplies, as the oil price recovers and the corresponding net back LNG price escalates. The inconvenient facts are that in the political pursuit of a clean energy future for Australia, sufficient regulatory and political road blocks have been put in the path of new energy discoveries at a time when gas producers are now able to supply gas (in the form of LNG) to the rest of the world who value Australia's gas more than the Australian market does, and are prepared to enter into long term supply contracts at international prices to secure their long term energy needs as their developing economies transition away from coal.

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Proven Basins

Bowen Basin, Queensland

(ATP814P – 100% Blue Energy and Operator)

This permit currently has certified 2P reserves of 71 PJ and 3P reserves of 298 PJ (as independently estimated by Netherland, Sewell and Associates). It consists of 7 separate blocks, with the Sapphire Bock holding the majority of the 2P and 3P reserves. Given its close proximity to existing infrastructure, the Sapphire Block would be used to provide gas to potential domestic customers, should Blue be successful in concluding a Gas Sale Agreement from its ongoing negotiations.

The ongoing conjecture regarding the prioritisation of development of Arrow Energy's (50/50 Shell and Petrochina Joint Venture) gas reserves for the export LNG market continues, as the absorption of QGC (a BG Group subsidiary) into the Shell structure takes place.

When Arrow's Moranbah reserves (largely held in ATP1103) are directed to meet the Gladstone LNG market (either in Shell's existing QCLNG Liquefaction facility, or as third party feed gas for another LNG facility in Gladstone) the subsequent construction of the required Moranbah to Gladstone pipeline will benefit Blue Energy's resource base in ATP814P, giving access to Gladstone. It is understood that all studies relating to the route of the proposed pipeline have been undertaken, some landholder agreements are largely in place and cultural heritage work undertaken. The remaining environmental authority for the Pipeline Licence is however yet to be lodged.

Blue continues work toward commercialising ATP814P and securing production licence tenure over the Sapphire Block area.

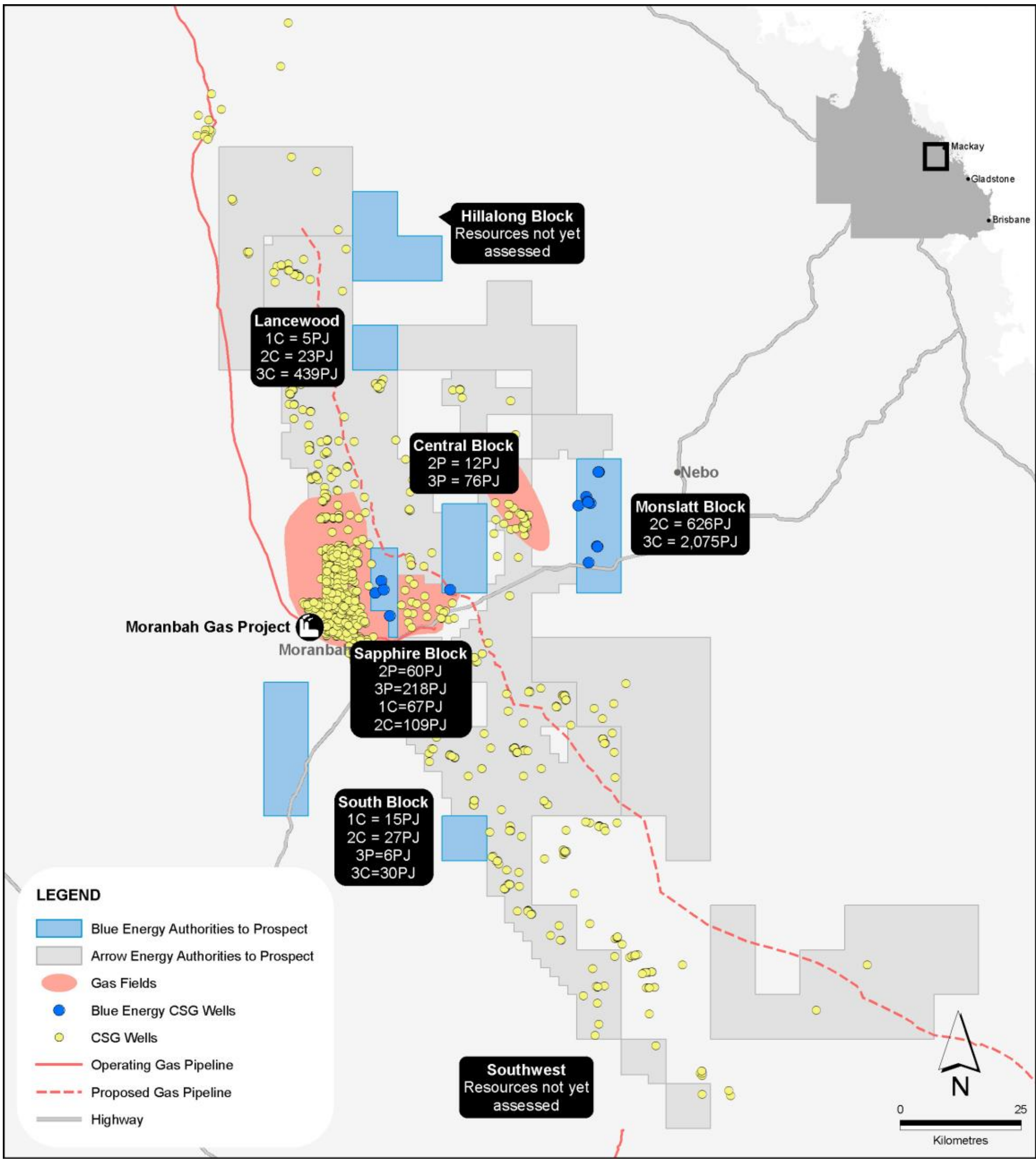

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Figure 1. Location of ATP814P relative to the Arrow Energy Moranbah Gas Project area

Cooper Basin

(ATP 656, 657, 658, & 660 - Blue Energy 100% - and Operator)

The sustained low oil price environment is now translating into lower on ground activity levels in the Qld sector of the Cooper Basin. Combined with recent corporate transactions (Beach-Drillsearch merger) and cost cutting of the major operators there is little drilling activity in the Qld sector.

Real Energy however is embarking on its hydraulic stimulation program of its Toolachee/Patchawara Formation Tamarama 1 gas discovery. It is expected that this program will get underway late April. Tamarama 1 is located to the southeast of Blue Energy's acreage and will test the deliverability of the shale play in both those formations.

Blue Energy continues to work with the Regulator to amalgamate its four Cooper Basin permits into a single project area for administrative efficiency and work program synergy.

Emerging Basins

Greater McArthur Basin (Wiso sub-basin and Southern Georgina Basin)

(various permits and equities levels - Blue Energy Operator)

Although there is a seasonal element to activity in the (central and northern) Northern Territory, it appears that the combination of low commodity prices and the threat of a change of government in the Northern Territory is restricting activity in much of the Northern Territory. Pangea Resources has curtailed it's on ground activity and laid off staff, and most other exploration activity is restricted to testing of wells drilled in previous years as part of farm-in work programs. It is anticipated that Santos will test the Tanumbirini 1 well and Origin is preparing to stimulate and test a selected wells or wells drilled in their 2015 program. The results of these tests will be eagerly awaited to give an indication of the potential commerciality of these shale plays.

Blue Energy continues to progress Native Title negotiations in its areas to facilitate grant of outstanding applications.

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CORPORATE

Discussion with potential gas buyers

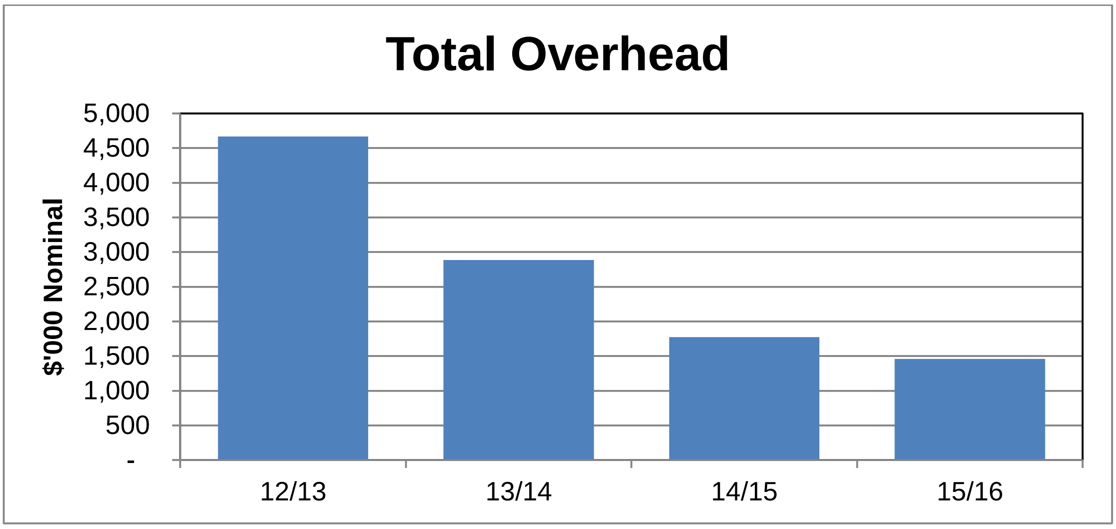
Blue is in continuing discussions with several potential gas buyers. Should concrete agreement be reached with a party or parties, the market will be duly informed.

Cash Position

Cash on hand at 31 March 2016 was $4.8m. Spend for last quarter was on budget and as forecast to the market in December 2015.

Cost Reduction

Blue Energy continues to steward its available cash and drive down its overheads. This continues to be a priority for management.



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Competent Person Statement

The estimates of reserves and contingent resources have been provided by Mr John Hattner of Netherland, Sewell and Associates Inc (NSAI). NSAI independently reviews at least quarterly the Company's Reserves and Contingent Resources. Mr Hattner is a full time employee of NSAI, has over 30 years' of industry experience and 20 years' of experience in reserve estimation, is a licensed geologist and a member of the Society of Petroleum Engineers (SPE), and has consented to the use of the information presented herein. The estimates in the report by Mr Hattner have been prepared in accordance with the definitions and guidelines set forth in the 2007 Petroleum and Resource Management System (PRMS) approved by the SPE, utilizing a deterministic methodology.

Petroleum Tenements Held

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter
ATP613P	Maryborough Basin (Qld)	100%	100%
ATP674P	Maryborough Basin (Qld)	100%	100%
ATP733P	Maryborough Basin (Qld)	100%	100%
ATP656P	Cooper Basin (Qld)	100%	100%
ATP657P	Cooper Basin (Qld)	100%	100%
ATP658P	Cooper Basin (Qld)	100%	100%
ATP660P	Cooper Basin (Qld)	100%	100%
ATP813P	Galilee Basin (Qld)	100%	100%
ATP814P	Bowen Basin (Qld)	100%	100%
ATP854P	Surat Basin (Qld)	100%	100%
ATP1112A	Carpentaria Basin (Qld)	100%	100%
ATP1114A	Georgina Basin (Qld)	100%	100%
ATP1117A	Georgina Basin (Qld)	100%	100%
ATP1123A	Georgina Basin (Qld)	100%	100%

Beneficial Interests held via Farm in's

Note 1–Blue can earn up to 50% equity in these blocks subject to completion of a farm in work program.

Permit	Location	Interest Held Previous Quarter	Interest Held Current Quarter	Comment
EP199A	Wiso Basin (NT)	10%	10%	See Note 1
EP200	Wiso Basin (NT)	10%	10%	See Note 1
EP205	Wiso Basin (NT)	10%	10%	See Note 1
EP206A	Wiso Basin (NT)	10%	10%	See Note 1
EP207	Wiso Basin (NT)	10%	10%	See Note 1
EP208A	Wiso Basin (NT)	10%	10%	See Note 1
EP209A	Wiso Basin (NT)	10%	10%	See Note 1
EP210A	Wiso Basin (NT)	10%	10%	See Note 1
EP211A	Wiso Basin (NT)	10%	10%	See Note 1

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